Dialog Group (DLG MK)

Expansion Catalysts Will Come

	BUY (Maintained)
Share Price	RM1.84
Target Price	RM2.50
Upside	+35.9%

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Highlights

- **Recent share price retracement offers accumulation opportunity.** A recent Edge article cited delay concerns on ChemOne's US$5.3b Pengerang Energy Complex (PEC), vs the 4Q25 target for financial close, due to cost escalation. For several years, Dialog was rumoured to be the chosen third-party bulk storage operator for PEC, likely on take-or-pay terms for a potential capacity of under 1m cbm. As PEC had faced multi-year setbacks since the pandemic, we believe the current share price has adequately factored this risk in, as it ignores any growth catalysts.

- **Vopak's 3Q25 messages reiterate positive outlook that justifies investments:** a) Storage outlook remains strong, as Vopak still benefits from higher repricing of storage rates, with an interesting comment being "there is still some power left in the oil side of the hub terminals"; and b) Similar to Dialog's EPCC challenges, Vopak acknowledges higher asset-related expenses, but remains ambitious on growth projects. Based on this industry outlook, we see this as an accumulation opportunity. Retain BUY, SOTP target price of RM2.50 (including RM0.45 expansion catalyst).

Analysis

- **3Q25 results review: Vopak benefitted from upward repricing during contract renewal,** despite a temporary dip in its global terminal's proportional utilisation by 1% qoq to 90%, largely from the Asia/ Middle East (MENA) region (whereby utilisation declined qoq from 89% to 86%). Vopak explained that this was a temporary impact caused by the timing of some contract renewal, but entirely offset by improved storage rates. Hence, core revenue and EBITDA still recorded qoq growths. While the contract renewal impact was not quantified for 3Q25, Vopak has a 20% annual contract renewal rate. 80% of Vopak's revenue is tied to long-term, take-or-pay contract basis. Dialog's ratios might be similar.

- **Long-term outlook remains positive.** Factors such as the elevated appeal of storage terminals for energy security reasons appeared to have structurally boosted Vopak's long-term storage mix (ie storage contract tenures at >3 years) over the years from 55% to 70%. These types of contracts typically have inflation protection clauses. This hugely supports Vopak's ambitious growth capex target of 0.7b euros for 2025, relative to the historical yearly growth capex and organic capex base of 0.3b euros each, all while adhering to its minimum IRR target of 13%.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,158	2,171	2,302
EBITDA	788	550	674	676	778
Operating profit	455	220	305	279	358
Net profit (rep./act.)	580	304	518	542	577
Net profit (adj.)	595	456	518	542	577
EPS	9.5	7.2	8.2	8.6	9.2
PE	19.8	25.8	22.7	21.8	20.1
P/B	2.0	2.1	1.9	1.8	1.7
EV/EBITDA	11.3	15.7	16.0	15.2	14.6
Dividend yield	2.1	1.5	1.8	19	2.0
Net margin	18.4	12.1	24.0	24.9	21.3
Net debt/(cash) to equity	2.2	n.m.	n.m.	0.5	1.7
Interest cover	12.2	11.3	13.5	12.5	12.8
ROE	13.9	7.5	12.2	12.3	10.8
Consensus net profit	-	-	539	580	590
UOBKH/Consensus (x)	-	-	0.96	0.93	0.98

Source: Dialog Berhad, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	**Energy**
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	10,389.0
Market cap (US$m)	2,515.0
3-mth avg daily t'over (US$m)	7.4

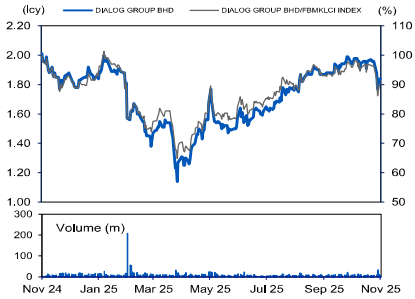
Price Performance (%)

52-week high/low				RM2.08/RM1.13
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(6.1)	10.5	10.2	(7.5)	(0.5)

Major Shareholders

	%
EPF	18.6
Ngau Boon Keat	18.3
Azam Utama	7.6

Price Chart



Source: Bloomberg

Company Description

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipments. Dialog has joint operatorship of 3 storage terminals with Royal Vopak (Vopak), which is the world's largest independent.

- **We opine that PEC's setback is not a major dent to Dialog's growth angle.** While ChemOne could explore other EPC contractors, according to Edge, the project's latest potential setback may be due to the following: a) EPC costs surged vs US$2.5b assumed by EPC partner Maire SpA; and b) US$1.2b of the project funding was provided by the Italian Export Credit Agency, which is an added complication. Hence, the delay risk beyond achieving financial close by 4Q25 is very high, as this target is based on the financing terms ratified in Dec 24.
- **Cost escalation is also an industry-wide challenge, and consistent with Vopak's message.** Vopak revealed that asset-related expenses surged in its opex mix since the pandemic. However, given the company's size, Vopak is able to respond pre-emptively by optimising its manpower and IT expenses. We still concur that for Dialog to regain its historically rich trading valuations, it has to prove that it has the nimble ability to navigate and sustain margins in a volatile market environment especially for EPCC (both external and internal projects).
- Accounting for the multi-year setbacks since the pandemic, we are not concerned about this current setback, as it is fully priced in. In other words, we think the share price reflects the absence of RM0.45/share expansion catalysts from our SOTP. In addition, even if PEC is delayed, we understand that Dialog has another long-term storage terminal that remains feasible for a potential/ repeat customer.

Valuation/Recommendation

- **Maintain BUY and target price of RM2.50.** Although the group's earnings recovery remains slow, we think markets will eventually shift towards growth catalysts (unchanged at RM0.45/share in our SOP), which include at least two storage terminals and jetty expansion (in Pengerang), and updates on the upstream concessions.

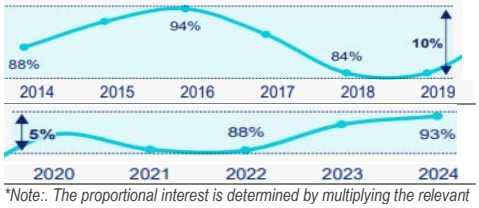
Earnings Revision/ Risk

- **Forecasts unchanged.** 1QFY26 results release date is 18 Nov 25. Given Dialog's increasing focus on boosting its long-term earnings mix from upstream concessions, one earnings risk is a persistently lower oil price vs consensus' expectation of US$60/bbl for 2026.
- Another risk is continued EPCC losses reported by the Downstream division. According to Dialog's latest Annual Report, all legacy EPCC projects had been completed, save for Petronas Gas' RM360m Southern Transmission Improvement & Readiness (STAR) Project at Johor. Based on our channel checks, STAR is still ongoing, contrary to the target completion of 1Q24 (as per Dialog's announcement on the contract).

Share Price Catalyst

- **Securing multiple new long-term concessions.** This includes more than one storage terminal (on take-or-pay terms and at IRRs similar to Vopak's 13%), quicker monetisation of upstream concessions (Baram Junior Cluster, Raja Cluster and Mutiara Cluster), as well as diversification of EPCC projects into quality upstream service contracts.

Vopak: Proportional* Occupancy Rate

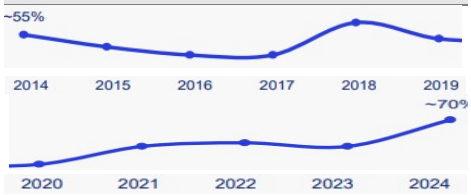


*Note:. The proportional interest is determined by multiplying the relevant measure representing Vopak's legal and economic rights in JV/associates
Source:: Royal Vopak 3Q25 Results Presentation

Vopak: MENA Proportional Utilisation

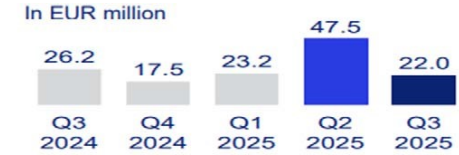
Source:: Royal Vopak 3Q25 Results Presentation

Vopak: Terminal Mix With Tenures >3 Years



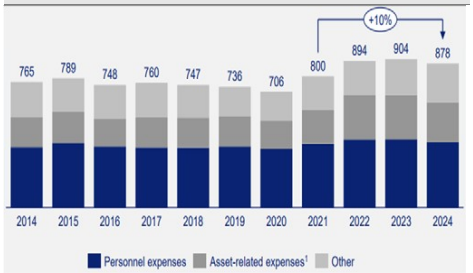
Source:: Royal Vopak 3Q25 Results Presentation

Vopak: MENA* JV Terminals EBITDA**



*Note: Vopak has approximately 22 JV terminals in Middle East and Asia (MENA) region. out of which 3 are in Malaysia.
** Note: Vopak's disclosure is EBITDA on gross (100% stake) basis. For 2Q25 (or 4QFY25 for Dialog), Vopak identified EUR21.7m exceptional gain, being the final compensation representing commercial resolution for PT2SB
Source:: Royal Vopak 3Q25 Results Presentation

Vopak: Opex components



Source:: Royal Vopak 3Q25 Results Presentation

Criteria for PEC to progress to sanction

i) ChemOne to remain committed to PEC and maintains its adaptability in securing funding, and
ii) technology feasibility remains sound. Despite its cost, PEC is set to maximise sustainability and synergy, alongside another project Pengerang Renewables Complex (PRC) that encompasses an integrated Hydrotreated Vegetable Oil (HVO) and Sustainablel Aviation Fuel (SAF). Utilising bio-naphtha as feedstock and receiving hydrogen in return, completes a fully circular economy, low-carbon pfuel production and cost efficiencies relative to existing technologies.
iii) Also, Pengerang Independent Petroleum Complex was recently repositioned as a flagship under the Johor-Singapore Special Economic Zone, hence government support remains viable.

Source:: Various, UOBKay Hian Estimates

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	**2,502**	**2,158**	**2,171**	**2,302**
EBITDA	550	674	676	778
Deprec. & amort.	329	370	397	420
EBIT	220	305	279	358
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	319	382	253
Net interest income/(expense)	(49)	(50)	(54)	(61)
Pre-tax profit	**376**	**574**	**606**	**549**
Tax	(66)	(40)	(42)	(38)
Minorities	(6)	(15)	(22)	(20)
Net profit	**304**	**518**	**542**	**491**

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	1,755	1,884	2,032
Other current assets	483	417	419	445
Total assets	**8,687**	**8,886**	**9,438**	**10,105**
ST debt	861	1,175	1,323	1,482
Other current liabilities	809	739	758	781
LT debt	861	1,175	1,323	1,482
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,052	6,377	6,672
Minority interest	502	524	520	638

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	**1,187**	**1,342**	**1,260**	**1,383**
Pre-tax profit	376	574	606	549606
Tax	(80)	(40)	(42)	(42)
Deprec. & amort.	329	370	397	397
Working capital changes	273	20	15	(4)
Other operating cashflows	119	120	124	131
Investing	**(479)**	**(800)**	**(800)**	**(753)**
Capex (growth)	(118)	(250)	(250)	(250)
Investments	(359)	(300)	(300)	(253)
Others	(2)	(250)	(250)	(250)
Financing	**(418)**	**(157)**	**(171)**	**(157)**
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(49)	(50)	(54)	(61)
Others/interest paid	(293)	(357)	(367)	(347)
Net cash inflow (outflow)	**120**	**86**	**129**	**148**
Beginning cash & cash equivalent	**1,572**	**1,669**	**1,755**	**1,884**
Changes due to forex impact	(22)	0	0	0

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8

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